



## **Question and Answer: “Competitive Bidding” in Medicare Advantage**

*February 26, 2009*

In light of President Obama’s plan for “competitive bidding” within Medicare Advantage (MA), the Republican Conference has compiled a document providing background on the issue.

### **Does the President’s proposal create competitive bidding within Medicare?**

No. The proposal requires MA plans to bid against each other—but not traditional Medicare will not be required to be competitive.

### **Does the President’s proposal create a “level playing field” for MA plans to compete against traditional Medicare?**

No. Current law provides a significant bias in favor of traditional Medicare, including its role as the “default” setting for seniors—patients must affirmatively enroll in an MA plan, while those taking no action will receive government-run insurance through traditional Medicare. Some Members may question why those purportedly interested in a “level playing field” have not proposed changing the current policy of auto-enrolling beneficiaries in traditional Medicare—particularly when it comes to those MA plans with costs below traditional Medicare spending. Some Members may also view the double standards set by the Obama budget as further evidence to oppose a nationalized health plan, because Democrats will never create a truly level playing field for MA plans to compete against government-run Medicare.

### **Do seniors participating in Medicare Advantage plans receive extra benefits?**

Yes. Current law requires most MA plans to provide beneficiaries lower premiums, extra benefits, or reduced cost-sharing. A May 2008 [Government Accountability Office report](#) found that MA beneficiaries saved an average of \$804 per year in reduced cost-sharing and premiums by enrolling in Medicare Advantage. Plans also use their rebates to provide extra benefits not covered by traditional Medicare, such as dental, vision, and hearing coverage.

### **Is a comparison between MA plan spending and traditional Medicare costs appropriate?**

No. Most Members believe that Medicare does not appropriately price all physician and hospital services—and Democrats’ recent actions demonstrate they do not support Medicare’s current pricing structure. For instance, the “stimulus” bill placed a moratorium on proposed changes to hospice reimbursement, and legislation last July delayed a scheduled reduction in physician reimbursement levels—while providing for a 21% cut in January 2010. If Members believe that physicians should not receive a 21% pay cut next January, then they may believe that traditional Medicare’s pricing mechanisms serve as an inappropriate benchmark to judge MA plan spending.

### **Isn’t traditional Medicare more efficient than Medicare Advantage plans?**

No. While some Democrats claim traditional Medicare’s administrative costs run as low as 3%, these costs *exclude* building maintenance, staff salaries, and collection of premiums that are borne by other federal agencies. Traditional Medicare also suffers from fraud and abuse—a January [Government](#)

[Accountability Office report](#) found that estimates of \$10.4 billion in improper payments annually could actually **understate** the level of Medicare fraud—due to a lack of adequate administrative oversight.

Conversely, MA plans provide additional disease management and chronic care initiatives that traditional Medicare does not. As Ezekiel Emanuel of the National Institutes of Health [wrote in November](#), “Some administrative costs are not only necessary but beneficial. Following heart attack or cancer patients to see which interventions work best is an administrative costs, but it’s also invaluable if you want to improve care.”

### **Do low-income seniors and minorities disproportionately benefit from Medicare Advantage?**

Yes. A 2007 study conducted by Ken Thorpe—a former Clinton Administration official—found that more than half of the millions of seniors who would lose MA coverage as a result of proposed cuts would have incomes between \$10,000 and \$30,000. The same study included findings that minorities make up 27% of MA enrollment, compared with only 20% in traditional Medicare. For these reasons, the National Association for the Advancement of Colored People and the League of United Latin American Citizens have previously opposed Democrat-led efforts to cut MA payments.<sup>1</sup>

### **Do all seniors benefit from the competition Medicare Advantage plans create?**

Yes. According to the [Medicare Payment Advisory Commission](#), MA plans with a prescription drug benefit bid **\$11 per month less** for prescription drug coverage than stand-alone Part D plans. Because bids from both stand-alone plans and MA plans are averaged together to determine federal spending on the prescription drug benefit, MA plans’ lower bids have helped result in Part D spending much lower than originally projected.

**Staff Contact:** Chris Jacobs, [christopher.jacobs@mail.house.gov](mailto:christopher.jacobs@mail.house.gov), (202) 226-2302

---

###

---

<sup>1</sup> “Minority Groups Oppose Proposed Reduction in Funds for Medicare Advantage Plans,” *Kaiser Daily Health Policy Report* March 16, 2007 (Washington, DC: Henry J. Kaiser Family Foundation), available online at [http://www.kaisernetwork.org/daily\\_reports/rep\\_index.cfm?DR\\_ID=43645](http://www.kaisernetwork.org/daily_reports/rep_index.cfm?DR_ID=43645) (accessed February 21, 2009).